

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
AGRE-00 /078 W

----- 051550 /11

R 180008Z DEC 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9270
INFO DEPT OF TREASURY WASHDC

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E.O. 11652: N/A
TAGS: EFIN MX
SUBJECT: 1977 PUBLIC SECTOR EXPENDITURES

REF: A) MEXICO 15770, B) MEXICO 15826.

1. SUMMARY: WE WERE SURPRISED BY THE SIZE OF THE PROPOSED
PUBLIC SECTOR SPENDING IN 1977, IN PARTICULAR SPENDING ON
SOCIAL DEVELOPMENT. GOM DENIES BUDGET WILL HAVE INFLATIONARY
IMPACT, AND EMPHASIZES NEED TO INCREASE PRODUCTION. END SUMMARY.

2. WE HAVE NOT HEARD ANYBODY CALL THE 1977 BUDGET AUSTERE
THOUGH THE GOVERNMENT IS SAYING THAT IT WILL NOT BE INFLA-
TIONARY, AND THAT IT IS GEARED AT INCREASING OUTPUT. THIS WAS
THE POINT OF VIEW EXPRESSED BY SECRETARY OF PRESIDENCY, CARLOS
TELLO, AT THE PRESS CONFERENCE WHEN THE BUDGET WAS ANNOUNCED.
HE APPEARS TO BE LIVING UP TO HIS REPUTATION AS A SPENDER
(SEE PARA 4, MEXICO 15206).

3. BUDGET MESSAGE STATES THAT 31.5 PERCENT INCREASE IN
CURRENT SPENDING IS LIMITED TO WHAT IS INDISPENSABLE TO
CONTINUE OPERATING THE ADMINISTRATION, WHEREAS THE 46.8 PER-
CENT IN CAPITAL SPENDING IS AIMED AT INCREASING EMPLOYMENT
AND CREATING THE BASIS (PRESUMABLY INFRA-STRUCTURE) FOR FUR-
THER DEVELOPMENT, THEREBY CONTRIBUTING TO THE "ALLIANCE FOR
PRODUCTION". INCREASED PRODUCTION OF GOODS AND SOCIAL
SERVICES FOR THE POPULAR CLASSES, AND INCREASED EMPLOYMENT
SEEM TO BE THE OVERRIDING OBJECTIVES OF THE BUDGET.

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4. SPENDING ON AGRICULTURE IS SAID TO CONTINUE AT ROUGHLY THE SAME LEVEL IN REAL TERMS AS LAST YEAR, BUT THAT RURAL DEVELOPMENT PROGRAM (PIDER) EXPENDITURES WILL BE UP 60 PERCENT OVER 1976 AUTHORIZED LEVELS. (THIS PROGRAM IS FINANCED IN PART AT LEAST BY IBRD AND IDB LOANS). BUDGET PRESENTATION ALSO OUTLINES PROSPECTIVE IMPORTS AND EXPORTS OF MAJOR COMMODITIES BY CONASUPO, GOM-OWNED FOOD DISTRIBUTION AGENCY. AGATT BELIEVES IMPORT REQUIREMENTS MAY BE UNDERSTATED AND EXPORTS OVERSTATED. THEY SHOW EXPORTS OF 150,000 TONS OF WHEAT WHEN THEY WILL PROBABLY HAVE TO IMPORT WHEAT. THIS IS ONE OF FEW INSTANCES WHERE EMBASSY HAS EXPERTISE TO LOOK AT DETAILED FIGURES AND WHERE SUCH INFORMATION IS AVAILABLE. OUR CONCLUSION IS NOT ENCOURAGING AS REGARDS THE LIKELIHOOD OF THE GOM BEING ABLE TO IMPLEMENT ITS PLANS.

5. IN THE INDUSTRIAL SECTOR, A 96 PERCENT INCREASE IN INVESTMENTS IN ENERGY IS PROGRAMMED WITH THE STATED INTENTION OF MAINTAINING EQUILIBRIUM BETWEEN EXPLORATION, EXPLOITATION AND REFINING OF HYDROCARBONS. INVESTMENT IN PRODUCTION OF FERTILIZERS AND PETROCHEMICALS IS TO INCREASE 150 PERCENT, IN MINING 125 PERCENT AND IN WOOD AND PAPER 230 PERCENT. INVESTMENTS IN STEEL WILL BE ADEQUATE TO FINISH EXPANSION PROGRAMS UNDERWAY AND TO MAKE THEM VIABLE. ALTERNATIVE MEANS OF INCREASING PRODUCTION ARE UNDER CONSIDERATION. NO SPECIFIC MENTION IS MADE OF PURSUING THE SECOND STAGE OF LAS TRUCHAS STEEL WORKS.

6. WE WERE SURPRISED BY THE LARGE INCREASE IN SOCIAL DEVELOPMENT EXPENDITURES AS THESE WERE NOT MENTIONED AS AN INVEST-LIMITED OFFICIAL USE

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MENT PRIORITY IN THE DEC 1 SPEECH. MORE SCHOOL FACILITIES AT ALL LEVELS WILL BE CONSTRUCTED, MORE MEDICAL FACILITIES WILL BE CONSTRUCTED, MORE PEOPLE WILL BE COVERED BY SOCIAL SECURITY PROGRAMS, AND ADDITIONAL POTABLE WATER FACILITIES WILL BE CONSTRUCTED.

7. THE PROPOSED INCREASE IN EXPENDITURES FOR TRANSPORTATION AND COMMUNICATIONS IS THE SMALLEST AMONG THE SIX BASIC SECTORS. THE BUDGET MESSAGE PROMISES SPENDING ON BOTH NEW FACILITIES AND ADEQUATE FUNDS TO MAINTAIN EXISTING FACILITIES.

8. THE INCREASE IN SPENDING ON TOURISM IS NOT GREAT IN ABSOLUTE TERMS AND IS TO BE EXPECTED IN LIGHT OF ITS IMPORTANCE AS A FOREIGN EXCHANGE EARNER. EXISTING PROJECTS ARE TO BE CONTINUED AND A NEW PROJECT BEGUN IN BAJA CALIFORNIA.

9. THE INCREASE IN ADMINISTRATION EXPENDITURES IS BLAMED ON THE HIGHER COST OF SERVICING THE FEDERAL GOVERNMENT'S DEBT.

THIS IS TO BE 80.8 BILLION PESOS IN 1977. WE DO NOT YET HAVE
A COMPARABLE FIGURE FOR 1976.

10. THE BUDGET MESSAGE CONTAINS NUMEROUS REFERENCES TO RE-
ORGANIZATION OF GOVERNMENT AGENCIES AND, PRESUMABLY, BETTER
CONTROL OVER PUBLIC SECTOR EXPENDITURES. THIS IS REASSURING,
BUT WE WOULD STILL VIEW THE JLP ADMINISTRATION'S CAPACITY
TO CONTROL SPENDING WITH A SOMEWHAT JAUNDICED EYE. IT IS
LIKELY, HOWEVER, THAT THE SLIPPAGE COULD COME MORE ON THE
REVENUE SIDE THAN THE EXPENDITURE SIDE. FOR EXAMPLE, THE
REVENUE FIGURES IN THE 1976 BUDGET IN PARAGRAPH FOUR OF REF
B) MAY HAVE BEEN OPTIMISTIC. USING THE SAME RATIO FOR THE
PERIOD JANUARY-SEPTEMBER TO YEAR 1975, WE WOULD PROJECT 1976
FEDERAL GOVERNMENT REVENUES AT ABOUT 135 BILLION PESOS RATHER
THAN THE 153 BILLION PESO FIGURE USED IN THE 1976 BUDGET PRE-
SENTATION. IF OUR 1976 ESTIMATE IS ACCURATE, THE GOM IS
CONTEMPLATING A 58.8 PERCENT INCREASE IN GOVERNMENT REVENUES.
THIS WOULD BE A SUBSTANTIAL INCREASE IN REAL TERMS AND VERY
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DIFFICULT TO ACHIEVE EVEN IN A RAPIDLY GROWING ECONOMY. NEW
REVENUE MEASURES ARE BEING ANNOUNCED AND WE SHALL REPORT MORE
ON THESE AND THE POSSIBILITY OF FINANCING A 221 BILLION PESO
DEFICIT LATER.

11. GOM DOES NOT ISSUE AN OFFICIAL ECONOMIC FORECAST. THE
BUDGET IS VIRTUALLY THE ONLY PUBLIC STATEMENT THAT GIVES ANY
INDICATION OF WHAT MIGHT HAPPEN TO THE ECONOMY IN THE FORTH-
COMING YEAR, AND IN THIS CONNECTION, THERE IS ONLY ONE FIGURE,
THE PRICE DEFLATOR, AND THAT IS NOT EXPLICIT. THE BUSINESSMEN
AND BANKERS THAT WE TALK TO DO NOT ANTICIPATE PRICE INCREASES
OF 30 TO 35 PERCENT AND THE GOVERNMENT'S LABELING THE
BUDGET AS ANTI-INFLATIONARY CAN ONLY REINFORCE THIS VIEW.
FURTHER, THESE PEOPLE DO NOT NECESSARILY ANTICIPATE THE IMPACT
A RATE OF INFLATION THIS HIGH COULD HAVE ON THE EXCHANGE RATE.
ONE MONEYBROKER WROTE HIS U.S. CLIENTS THAT HE BELIEVED THE
20:1 EXCHANGE RATE COULD BE MAINTAINED THROUGHOUT THE JLP
ADMINISTRATION. WE CANNOT HELP BUT BELIEVE THERE WILL BE SOME
SURPRISED AND DISAPPOINTED MEXICANS WHEN THEY REALIZE THAT
THE POST-DEVALUATION INFLATION HAS NOT YET ABATED. THEY COULD
REACT BY MOVING FUNDS INTO DOLLARS IN LARGE AMOUNTS ONCE
MORE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, ECONOMIC ESTIMATES, ECONOMIC DATA, GOVERNMENT EXPENDITURES, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MEXICO15908
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760465-0903
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761230/aaaaazsf.tel
Line Count: 162
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 MEXICO 15770, 76 MEXICO 15826
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by BoyleJA>; APPROVED <04 NOV 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: 1977 PUBLIC SECTOR EXPENDITURES
TAGS: EFIN, MX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006